

**City of Mason
Ingham County, Michigan**

FINANCIAL STATEMENTS

June 30, 2008

City of Mason

Ingham County, Michigan

June 30, 2008

CITY COUNCIL AND ADMINISTRATION

Leon Clark	Mayor
Robin Naeyaert	Mayor Pro-Tem
Les Bruno, Jr.	Council member
Jim Mulvany	Council member
Scott Preadmore	Council member
Michael Waltz	Council member
Russ Whipple	Council member
Marty Colburn	City Administrator/ City Clerk
Kathy Revels	Finance Director/ Treasurer
Eric Smith	Assistant Finance Director

City of Mason

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Mason
Mason, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the City of Mason as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the City of Mason as of June 30, 2008, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2008, on our consideration of the City of Mason's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Mason's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 23, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

Our discussion and analysis of the City of Mason, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the City's financial statements.

Overview of the Financial Statements

This annual report consists of the following report sections: management's discussion and analysis (this section), the basic financial statements, required supplemental information, and other supplemental information section that presents combining statements for nonmajor governmental funds. The basic financial statements are presented in two different formats: government-wide financial statements and fund financial statements.

The government-wide financial statements include the statement of net assets and the statement of activities. These statements provide both long-term and short-term information about the City's overall financial status.

The fund financial statements include the balance sheet and the statement of revenue, expenditures, and changes in net assets/fund balances. These statements focus on individual parts of the City government and report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

The governmental fund statements tell how general government services, like police and fire, were financed in the short term as well as what remains for future spending.

The proprietary fund statements present short and long-term financial information about those activities that the City operates in a business-like manner, such as the water and sewer system.

The fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the information presented in the financial statements. In addition to these required supplementary schedules, we have provided a section with combining statements that provide details about our nonmajor governmental and fiduciary funds.

Government-wide Financial Statements

The City's government-wide statements can be found on pages 1 and 2 of this report. These statements report information about the City as a whole under the full accrual method of accounting, which is similar to the accounting used by most private-sector companies. The statement of net assets includes all, both current and long-term, of the government's assets and liabilities and the statement of activities includes all of the current year's revenues and expenses regardless of when cash is received or paid.

The combined objective of the government-wide statements is to report the City's net assets and how they have changed. The reporting of net assets is one way to measure the City's financial health or position.

Over time, increases or decreases in the City's net assets can be viewed as indicators of whether its financial health is improving or deteriorating, respectively.

In addition to the financial factors, you will need to consider additional information such as changes in the City's property tax base to assess the overall health.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

The City's government-wide financial statements divide the reported information into three categories:

- Governmental activities - Most of the City's basic services are included here, such as police, fire, cemetery, parks, and general administration. Property taxes and state revenue sharing are used to finance most of these activities.
- Business-type activities - The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer system is included in this category.
- Component units - The City includes other legal entities in its report such as the Downtown Development Authority and the Local Development Finance Authority. The City is financially accountable for these "component units" although they are legally separate entities.

Fund Financial Statements

The City's fund financial statements begin on page 3 of this report. These statements provide more detailed information about the City's most significant funds. The City uses funds to account for specific sources of funding and spending for particular purposes. Some funds are required by state law and others are established by the City to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has three kinds of funds that use different accounting approaches:

- Governmental funds - Most of the City's basic services are included in governmental funds. These funds focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. These funds are reported using the modified accrual accounting method that measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because governmental fund information has a short-term focus and the government-wide statement incorporates long-term information, we describe the relationship (or differences) between governmental activities and governmental funds in reconciliations on pages 5 and 8.
- Proprietary funds - When the City charges customers fees for the services it provides, the fees are generally reported in proprietary funds. Similar to the reporting method used on the government-wide statements, proprietary funds provide both long- and short-term financial information.
 - In fact, the City's Enterprise Fund (water and sewer) is the same as its business-type activity, but provides more detail and additional information.
 - We use an Internal Service Fund (the other type of proprietary fund) to report activities that provide services and supplies to other programs and activities within the City. The City's Motor Vehicle Pool Fund falls into this category.
- Fiduciary funds - The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The delinquent tax and payroll funds are fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15 through 31 of the report.

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2008:

- The City's total net assets increased as a result of the fiscal year's operations and the addition of unrecorded assets. The net assets of our business-type activities increased by \$310,860, or 2.2 percent, and net assets of our governmental activities increased by \$786,944, or 4.0 percent.
- During the year, the City had revenues that were \$786,944 more than the \$4.9 million in expenses.
- Improved investment practices and a new investment policy assisted with investment income as rates declined.
- In the City's business-type activities, revenues were \$2.3 million while expenses were \$2.0 million.
- Total costs of all the City's programs were \$6.9 million.
- The General Fund reported an increase in fund balance of \$689,287.

The City as a Whole

The following table shows, in a condensed format, the current year's net assets for the years ended June 30, 2008 and 2007:

City of Mason's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets						
Current and other assets	\$ 6,963,746	\$ 6,118,529	\$ 5,961,282	\$ 5,055,824	\$12,925,028	\$11,174,353
Capital assets, net	15,784,216	15,916,443	15,550,278	9,406,133	31,334,494	25,322,576
Total assets	22,747,962	22,034,972	21,511,560	14,461,957	44,259,522	36,496,929
Liabilities						
Current	516,280	396,962	1,869,685	137,856	2,385,965	534,818
Noncurrent	1,761,151	1,954,423	5,098,462	91,548	6,859,613	2,045,971
Total liabilities	2,277,431	2,351,385	6,968,147	229,404	9,245,578	2,580,789
Net Assets						
Invested in capital assets- net of related debt	14,082,603	14,015,976	10,169,004	9,347,820	24,251,607	3,363,796
Restricted	2,119,348	2,090,511	-	-	2,119,348	2,090,511
Unrestricted	4,268,580	3,577,100	4,374,409	4,884,733	8,642,989	8,461,833
Total net assets	<u>\$20,470,531</u>	<u>\$19,683,587</u>	<u>\$14,543,413</u>	<u>\$14,232,553</u>	<u>\$35,013,944</u>	<u>\$39,916,140</u>

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

The City's combined net assets were increased from a year ago from \$33.9 million to \$35.0 million.

Approximately 68.8 percent of the City's net assets of governmental activities reflect its investment in capital less any related debt used to acquire those assets. The City's capital assets are used to provide services to citizens. Consequently, these assets are not available for future spending. Restricted net assets represent resources that are subject to external restrictions on how they may be used. Unrestricted net assets of governmental activities of \$4.3 million represent the amount that may be used to meet the City's ongoing obligations.

Net assets of the City's governmental activities increased by nearly 4.0 percent to \$20.5 million. This increase demonstrates the City's commitment to maintaining major and local streets, updating city parks, and providing public safety technology and personal protection equipment.

The net assets of our business-type activities increased by 2.2 percent or to \$14.5 million during the fiscal year. This increase is due to continued investment in infrastructure such as water and sewer mains and the beginning of a water treatment plant.

The following table illustrates the varying results of the governmental activities and business-type activities, which combine to capture the City's total net assets, for the years ended June 30, 2008 and 2007.

City of Mason's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues						
Program revenue:						
Charges for services	\$ 950,879	\$ 1,031,497	\$ 2,094,332	\$ 2,127,058	\$ 3,045,211	\$ 3,158,555
Operating grants and contributions	907,426	440,218	-	-	907,426	440,218
Capital grants and contributions	254,701	83,747	-	-	254,701	83,747
General revenues:						
Property taxes	2,744,316	2,735,046	-	-	2,744,316	2,735,046
State Revenue Sharing	638,270	651,730	-	-	638,270	651,730
Investment earnings	166,133	155,924	135,417	292,469	301,550	448,393
Miscellaneous	44,628	2,962	123,292	-	167,920	2962
Total revenues	5,706,353	5,101,124	2,353,041	2,419,527	8,059,394	7,520,651
Expenses						
General government	1,539,408	1,197,777	-	-	1,539,408	1,197,777
Public safety	1,451,509	1,289,605	-	-	1,451,509	1,289,605
Public works	1,446,759	1,263,037	-	-	1,446,759	1,263,037
Community and economic development	5,959	6,362	-	-	5,959	6,362
Recreation and culture	394,448	235,549	-	-	394,448	235,549
Interest on long-term debt	81,326	87,395	-	-	81,326	87,395
Water and Sewer	-	-	2,042,181	1,946,456	2,042,181	1,946,456
Total expenses	4,919,409	4,079,725	2,042,181	1,946,456	6,961,590	6,026,181
Change in net assets	786,944	1,021,399	310,860	473,071	1,097,804	1,494,470
Restated Net assets, beginning of year	19,683,587	18,662,188	14,232,553	13,759,482	33,916,140	32,421,670
Net assets, end of year	\$20,470,531	\$19,683,587	\$14,543,413	\$14,232,553	\$35,013,944	\$33,916,140

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

Governmental activities. Governmental activities increased the City's net assets by \$786,944. Key elements of this increase are as follows:

- The cost of all governmental activities this year was \$4.9 million.
- The amount that City taxpayers paid for these activities through City taxes was only \$2.7 million.
- Some of the cost was paid by the beneficiaries of the program's activities (\$0.9 million), or by other governments and organizations that subsidized certain programs with grants and contributions (\$1.2 million).

Business-type activities. Business-type activities increased the City's net assets by \$310,860.

Total revenues of the City's business-type activities, water and sewer, decreased to \$2.3 million for 2008 from \$2.4 million in 2007 and total expenses increased to \$2.0 million in 2008 from \$1.9 million in 2007. The City experienced a change in net assets of \$310,860 in its water and sewer operations. Factors contributing to these results included:

- Decreased interest income of \$135,417
- Investment in capital assets.

The City's Funds

Our analysis of the City's major funds begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City's major funds for 2008 include the General Fund, the Major Street Fund, and the Special Assessment Fund. These funds, along with the remaining nonmajor funds, reported a combined fund balance of \$4.2 million, and showed an increase over last year's combined fund balance of \$3.4 million.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City budget several times. We began the year expecting to set aside additional funds in the General Fund earmarked specifically for future City Hall improvements. The original budget predicted a surplus of \$542,515. The City ended the year with a surplus of \$689,287.

City of Mason

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

Capital Asset and Debt Administration

At the end of the 2008 fiscal year, the City had invested approximately \$31.3 million in a broad range of capital assets, including police equipment, buildings and improvements, public safety equipment, parks and recreational facilities, roads, a water well, and water and sewer lines.

City's Capital Assets
(net of depreciation)

	Governmental <u>Activities</u>	Business- type <u>Activities</u>	<u>Total</u>
Land	\$ 1,446,854	\$ 25,609	\$ 1,472,463
Land Improvements	526,139	-	526,136
Infrastructure	12,086,687	8,855,411	20,942,048
Buildings and improvements	854,854	200,246	1,055,100
Vehicles & Equipment	519,130	-	519,130
Construction in progress	<u>350,602</u>	<u>6,469,012</u>	<u>6,819,614</u>
Capital assets, net	<u>\$ 15,784,216</u>	<u>\$15,550,278</u>	<u>\$ 31,334,494</u>

Debt

At year end, the City had \$7.5 million in bonds and notes outstanding. This represents a \$6.5 million increase from the previous year. More detailed information about the City's long-term liabilities is presented in Note F to the basic financial statements.

City's Outstanding Debt

	Governmental <u>Activities</u>	Business- type <u>Activities</u>	<u>Total</u>
Revenue/Special assessment bonds	\$ 901,000	\$ -	\$ 901,000
General obligation bonds	800,613	-	800,613
Revenue bonds	-	44,689	44,689
Revolving fund loan	-	5,336,585	5,336,585
Accrued compensated absences	<u>383,887</u>	<u>70,538</u>	<u>454,425</u>
Total outstanding debt	<u>\$ 2,085,500</u>	<u>\$ 5,451,812</u>	<u>\$ 7,537,312</u>

The City of Mason has been given a bond rating of "A" by Standards and Poor.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

Economic Factors and Next Year's Budgets and Rates

The City's budget for the 2008/2009 fiscal year is balanced with no property tax rate increase. Total expenses in the General Fund for the 2008/2009 fiscal year are estimated to be \$5.4 million. Included in those costs are the General Fund's contributions to support the streets program (\$400,000). A portion of the anticipated surplus will be used to finance future improvements to City Hall.

Due to revised radium standards, the City of Mason is in the process of constructing a water treatment plant as well as new water well on the same site. The City is conducting a cost study for water and sewer user fees during the 2007/2008 fiscal year to ensure that user fees adequately covered current and future needs.

In fiscal year 2006/2007 and fiscal year 2007/2008, the City designated surplus funds for a City Hall/Police Department Complex. Officials and employees are proceeding with the planning and development process for this project. A completion date within the 2009/2010 fiscal year is expected.

The Hayhoe Riverwalk Trail will be extended to complete the path across the City. This linear park has been funded mainly by private donations to date. Some City funds will be used to complete the project in the fall of 2008 or the spring of 2009.

Contacting the City of Mason Management

This financial report is intended to provide citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the City administrator's office at the City of Mason, 517-676-9155.

BASIC FINANCIAL STATEMENTS

City of Mason

STATEMENT OF NET ASSETS

June 30, 2008

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 4,843,874	\$ 3,361,708	\$ 8,205,582	\$ 1,053,822
Investments	-	1,000,000	1,000,000	-
Receivables				
Accounts	28,117	401,224	429,341	1,554
Taxes	28,912	-	28,912	11,746
Assessments	1,769,075	-	1,769,075	-
Due from other governmental units	281,892	1,173,604	1,455,496	-
Inventory	-	24,746	24,746	-
Prepays	11,876	-	11,876	-
 Total current assets	 6,963,746	 5,961,282	 12,925,028	 1,067,122
Noncurrent assets				
Capital assets not being depreciated	1,797,456	6,494,621	8,292,077	-
Capital assets, net of accumulated depreciation	13,986,760	9,055,657	23,042,417	142,116
 Total noncurrent assets	 15,784,216	 15,550,278	 31,334,494	 142,116
 TOTAL ASSETS	 22,747,962	 21,511,560	 44,259,522	 1,209,238
LIABILITIES				
Current liabilities				
Accounts payable	63,936	1,500,002	1,563,938	5,448
Accrued liabilities	52,211	16,333	68,544	6,801
Accrued wages	29,173	-	29,173	-
Due to other governmental units	19,140	-	19,140	100,042
Accrued interest payable	16,604	-	16,604	-
Unearned revenue	10,867	-	10,867	-
Current portion of compensated absences	115,166	14,108	129,274	-
Current portion of long-term debt	209,183	339,242	548,425	334,449
 Total current liabilities	 516,280	 1,869,685	 2,385,965	 446,740
Noncurrent liabilities				
Noncurrent portion of compensated absences	268,721	56,430	325,151	-
Noncurrent portion of long-term debt	1,492,430	5,042,032	6,534,462	800,515
 Total noncurrent liabilities	 1,761,151	 5,098,462	 6,859,613	 800,515
 TOTAL LIABILITIES	 2,277,431	 6,968,147	 9,245,578	 1,247,255
NET ASSETS				
Invested in capital assets, net of related debt	14,082,603	10,169,004	24,251,607	142,116
Restricted for:				
Debt service	288,147	-	288,147	-
Capital improvements	105,889	-	105,889	-
Other purposes	1,725,312	-	1,725,312	-
Unrestricted	4,268,580	4,374,409	8,642,989	(180,133)
 TOTAL NET ASSETS	 \$ 20,470,531	 \$ 14,543,413	 \$ 35,013,944	 \$ (38,017)

See accompanying notes to financial statements.

City of Mason

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Functions/Programs	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			Component Units
			Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 1,539,408	\$ 317,627	\$ 435,220	\$ 100,000	\$ (686,561)	\$ -	\$ (686,561)	\$ -
Public safety	1,451,509	193,665	12,784	-	(1,245,060)	-	(1,245,060)	-
Public works	1,446,759	404,886	459,422	154,701	(427,750)	-	(427,750)	-
Community and economic development	5,959	-	-	-	(5,959)	-	(5,959)	-
Recreation and cultural	394,448	34,701	-	-	(359,747)	-	(359,747)	-
Interest on long-term debt	81,326	-	-	-	(81,326)	-	(81,326)	-
Total governmental activities	4,919,409	950,879	907,426	254,701	(2,808,403)	-0-	(2,806,403)	-0-
Business-type activities:								
Water and Sewer	2,042,181	2,217,624	-	-	-0-	175,443	175,443	-0-
Total primary government	<u>\$ 6,961,590</u>	<u>\$ 3,168,503</u>	<u>\$ 907,426</u>	<u>\$ 254,701</u>	(2,806,403)	175,443	(2,630,960)	-0-
Component units:								
Local Development Finance Authority	\$ 222,678	\$ -	\$ -	\$ -	-	-	-	(222,678)
Downtown Development Authority	76,455	-	2,100	-	-	-	-	(74,355)
Economic Development Corporation	-	-	-	-	-	-	-	-
Total component units	<u>\$ 299,133</u>	<u>\$ -0-</u>	<u>\$ 2,100</u>	<u>\$ -0-</u>	-0-	-0-	-0-	(297,033)
General revenues:								
Property taxes					2,744,316	-	2,744,316	425,616
State shared revenue					638,270	-	638,270	-
Investment earnings					166,133	135,417	301,550	57,788
Miscellaneous					44,628	-	44,628	-
Total general revenues					<u>3,593,347</u>	<u>135,417</u>	<u>3,728,764</u>	<u>483,404</u>
Change in net assets					786,944	310,860	1,097,804	186,371
Net assets, beginning of the year					<u>19,683,587</u>	<u>14,232,553</u>	<u>33,916,140</u>	<u>(224,388)</u>
Net assets, end of the year					<u>\$ 20,470,531</u>	<u>\$ 14,543,413</u>	<u>\$ 35,013,944</u>	<u>\$ (38,017)</u>

See accompanying notes to financial statements.

City of Mason

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2008

	General	Major Street Fund	Special Assessment Fund
ASSETS			
Cash and cash equivalents	\$ 2,358,689	\$ 402,302	\$ 304,580
Receivables			
Accounts	24,687	802	-
Taxes	28,912	-	-
Special assessments	-	-	1,769,075
Due from other funds	-	21,647	-
Due from other governmental units	92,995	53,331	-
Prepays	11,876	-	-
TOTAL ASSETS	\$ 2,517,159	\$ 478,082	\$ 2,073,655
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 36,362	\$ 25,056	\$ 138
Accrued liabilities	51,595	-	-
Accrued wages	26,270	1,337	-
Due to other funds	21,534	21,355	-
Due to other governmental units	19,140	-	-
Deferred revenue	10,867	-	1,769,075
TOTAL LIABILITIES	165,768	47,748	1,769,213
FUND BALANCES			
Reserved for:			
Prepays	11,876	-	-
Construction code activity	243,920	-	-
Perpetual care	-	-	-
Unreserved			
Designated for:			
City Hall project	1,000,000	-	-
Undesignated, reported in:			
General Fund	1,095,595	-	-
Special Revenue Funds	-	430,334	304,442
Debt Service Funds	-	-	-
Capital Project Funds	-	-	-
TOTAL FUND BALANCES	2,351,391	430,334	304,442
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,517,159	\$ 478,082	\$ 2,073,655

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,120,157	\$ 4,185,728
1,032	26,521
-	28,912
-	1,769,075
21,355	43,002
18,525	164,851
-	11,876
<u>\$ 1,161,069</u>	<u>\$ 6,229,965</u>
\$ 2,247	\$ 63,803
-	51,595
1,566	29,173
-	42,889
-	19,140
-	1,779,942
3,813	1,986,542
-	11,876
-	243,920
321,917	321,917
-	1,000,000
-	1,095,595
729,141	1,463,917
309	309
105,889	105,889
<u>1,157,256</u>	<u>4,243,423</u>
<u>\$ 1,161,069</u>	<u>\$ 6,229,965</u>

City of Mason

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2008

Total fund balances - governmental funds \$ 4,243,423

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 27,743,149	
Accumulated depreciation is	<u>(11,958,933)</u>	
Capital assets, net		15,784,216

Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the Government-wide Statement of Net Assets.

Net assets of governmental activities accounted for in Internal Service Funds	909,797	
Net capital assets of Internal Service Funds included in total capital assets above	(262,938)	
Net compensated absences of Internal Service Funds included in total compensated absences below	<u>12,021</u>	
		658,880

Long-term receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds. These consist of:

Deferred revenue		1,769,075
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Various receivables are not expected to be collected within 60 days of year end and are not available to pay for current period expenditures		117,041
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet. Long-term liabilities at year-end consist of:

Direct City obligations	(1,701,613)	
Accrued interest payable	(16,604)	
Compensated absences	<u>(383,887)</u>	
		<u>(2,102,104)</u>

Net assets of governmental activities		\$ 20,470,531
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See accompanying notes to financial statements.

City of Mason

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2008

	General	Major Street Fund	Special Assessment Fund
REVENUES			
Taxes	\$ 3,021,224	\$ -	\$ -
Licenses and permits	56,726	-	-
Intergovernmental	1,076,878	325,638	-
Charges for services	592,221	4,401	-
Fines and forfeits	7,500	-	-
Interest, rents, and royalties	112,276	14,696	113,433
Other	50,444	-	154,701
TOTAL REVENUES	4,917,269	344,735	268,134
EXPENDITURES			
Current			
General government	1,628,366	-	-
Public safety	1,461,768	-	-
Public works	387,284	647,835	-
Community and economic development	5,959	-	-
Recreation and cultural	363,067	-	-
Debt service	55,000	-	122,201
Capital outlay	-	-	-
TOTAL EXPENDITURES	3,901,444	647,835	122,201
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,015,825	(303,100)	145,933
OTHER FINANCING SOURCES (USES)			
Transfers in	131,632	349,716	-
Transfers out	(458,170)	(103,855)	(114,198)
TOTAL OTHER FINANCING SOURCES (USES)	(326,538)	245,861	(114,198)
NET CHANGE IN FUND BALANCES	689,287	(57,239)	31,735
Fund balances, beginning of year	1,662,104	487,573	272,707
Fund balances, end of year	\$ 2,351,391	\$ 430,334	\$ 304,442

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 3,021,224
-	56,726
133,784	1,536,300
2,802	599,424
-	7,500
90,826	331,231
103,070	308,215
330,482	5,860,620
-	1,628,366
-	1,461,768
249,369	1,284,488
-	5,959
-	363,067
101,067	278,268
38,684	38,684
389,120	5,060,600
(58,638)	800,020
212,309	693,657
(17,434)	(693,657)
194,875	-0-
136,237	800,020
1,021,019	3,443,403
\$ 1,157,256	\$ 4,243,423

City of Mason

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Net change in fund balances - total governmental funds **\$ 800,020**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 686,123	
Depreciation expense	<u>(818,350)</u>	
Excess of depreciation expense over capital outlay		(132,227)

Internal service funds are used by management to charge the costs of certain activities to individual funds.

Increase in net assets of Internal Service Funds	131,962	
Capital outlay of the Internal Service Fund included in the total above	(86,195)	
Depreciation expense of Internal Service Fund included in the total above	60,002	
Increase in compensated absences of Internal Service Fund included in the total below	<u>1,316</u>	
		107,085

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in deferred revenue	(154,775)
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State shared revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds.

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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Long-term debt principal retirements	198,854
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued interest payable	(1,912)	
(Increase) in accrued compensated absences	<u>(30,609)</u>	
		<u>(32,521)</u>

Change in net assets of governmental activities **\$ 786,944**

See accompanying notes to financial statements.

City of Mason
Proprietary Funds
STATEMENT OF NET ASSETS
June 30, 2008

	Business-type Activities	Governmental Activities
	Water and Sewer	Internal Service Fund - Motor Vehicle Pool
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,361,708	\$ 658,146
Investments	1,000,000	-
Accounts receivable	401,224	1,596
Due from other governmental units	1,173,604	-
Inventory	24,746	-
Total current assets	5,961,282	659,742
Noncurrent assets		
Capital assets not being depreciated	6,494,621	27,010
Capital assets, net of accumulated depreciation	9,055,657	235,928
Total noncurrent assets	15,550,278	262,938
TOTAL ASSETS	21,511,560	922,680
LIABILITIES		
Current liabilities		
Accounts payable	1,500,002	133
Accrued liabilities	16,333	616
Due to other funds	-	113
Current portion of compensated absences	14,108	3,606
Current portion of long-term debt	339,242	-
Total current liabilities	1,869,685	4,468
Noncurrent liabilities		
Noncurrent portion of compensated absences	56,430	8,415
Noncurrent portion of long-term debt	5,042,032	-
Total noncurrent liabilities	5,098,462	8,415
TOTAL LIABILITIES	6,968,147	12,883
NET ASSETS		
Invested in capital assets, net of related debt	10,169,004	262,938
Unrestricted	4,374,409	646,859
TOTAL NET ASSETS	<u>\$ 14,543,413</u>	<u>\$ 909,797</u>

See accompanying notes to financial statements.

City of Mason

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended June 30, 2008

	Business-type Activities	Governmental Activities
	Water and Sewer	Internal Service Fund - Motor Vehicle Pool
OPERATING REVENUES		
Internal user charges	\$ -	\$ 360,919
Water user charges	1,682,724	-
Sewer user charges	361,118	-
Interest and penalty charges	50,490	-
Rent	4,055	-
Other	119,237	4,384
TOTAL OPERATING REVENUES	2,217,624	365,303
OPERATING EXPENSES		
Cost of water produced	110,007	-
Cost of sewage treatment	715,417	-
Operation and maintenance	683,320	206,436
Billing and administrative costs	101,469	-
Depreciation	413,941	60,002
TOTAL OPERATING EXPENSES	2,024,154	266,438
OPERATING INCOME	193,470	98,865
NONOPERATING REVENUES (EXPENSES)		
Gain on sale of assets	-	14,386
Investment income	135,417	18,711
Interest expense and fees	(18,027)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	117,390	33,097
CHANGE IN NET ASSETS	310,860	131,962
Net assets, beginning of year	14,232,553	777,835
Net assets, end of year	\$ 14,543,413	\$ 909,797

See accompanying notes to financial statements.

City of Mason

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2008

	Business-type Activities	Governmental Activities
	Water and Sewer	Internal Service Fund - Motor Vehicle Pool
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 2,088,540	\$ 365,238
Cash paid to suppliers	(633,629)	(143,682)
Cash paid to employees	(524,479)	(60,644)
NET CASH PROVIDED BY OPERATING ACTIVITIES	930,432	160,912
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments on borrowing	(13,624)	-
Proceeds from borrowing	4,262,981	-
Purchase of capital assets	(5,578,208)	(86,195)
Sale of capital assets	-	14,386
Interest expense and fees	(18,027)	-
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,346,878)	(71,809)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	135,417	18,711
Purchase of investments	(1,000,000)	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(864,583)	18,711
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,281,029)	107,814
Cash and cash equivalents, beginning of year	4,642,737	550,332
Cash and cash equivalents, end of year	<u>\$ 3,361,708</u>	<u>\$ 658,146</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 193,470	\$ 98,865
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	413,941	60,002
(Increase) in accounts receivable	(29,084)	(65)
Decrease in prepaids	12,341	-
Decrease in inventories	3,860	-
(Increase) in due from other governments	(100,000)	-
Increase in accounts payable	407,034	65
Increase in compensated absences	12,537	1,316
Increase in due to other funds	-	113
Increase in accrued liabilities	16,333	616
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 930,432	\$ 160,912

See accompanying notes to financial statements.

City of Mason

Fiduciary Funds

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2008

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 29,570
LIABILITIES	
Accrued and other liabilities	\$ 29,488
Due to other governmental units	61
Due to individuals and agencies	21
TOTAL LIABILITIES	\$ 29,570

See accompanying notes to financial statements.

City of Mason

Component Units

COMBINING STATEMENT OF NET ASSETS

June 30, 2008

	Local Development Finance Authority	Downtown Development Authority	Economic Development Corporation	Total Component Units
ASSETS				
Current assets				
Cash and cash equivalents	\$ 931,910	\$ 100,740	\$ 21,172	\$ 1,053,822
Receivables	-	13,300	-	13,300
Total current assets	931,910	114,040	21,172	1,067,122
Noncurrent assets				
Capital assets, net of accumulated depreciation	142,116	-	-	142,116
TOTAL ASSETS	1,074,026	114,040	21,172	1,209,238
LIABILITIES				
Current liabilities				
Accounts payable	-	5,448	-	5,448
Accrued liabilities	6,801	-	-	6,801
Due to other governmental units	100,000	42	-	100,042
Current portion of long-term debt	334,449	-	-	334,449
Total current liabilities	441,250	5,490	-0-	446,740
Noncurrent liabilities				
Noncurrent portion of long-term debt	800,515	-	-	800,515
TOTAL LIABILITIES	1,241,765	5,490	-0-	1,247,255
NET ASSETS				
Invested in capital assets, net of related debt	142,116	-	-	142,116
Unrestricted	(309,855)	108,550	21,172	(180,133)
TOTAL NET ASSETS	\$ (167,739)	\$ 108,550	\$ 21,172	\$ (38,017)

See accompanying notes to financial statements.

City of Mason

Component Units

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenues and Changes in Net Assets			
		Operating Grants and Contributions	Local Development Finance Authority	Downtown Development Authority	Economic Development Corporation	Total Component Units
Governmental activities:						
Local Development Finance Authority	\$ 222,678	\$ -	\$ (222,678)	\$ -	\$ -	\$ (222,678)
Downtown Development Authority	76,455	2,100	-	(74,355)	-	(74,355)
Economic Development Corporation	-	-	-	-	-	-0-
Total component units	<u>\$ 299,133</u>	<u>\$ 2,100</u>	(222,678)	(74,355)	-0-	(297,033)
General revenues						
Property taxes			342,961	82,655	-	425,616
Investment earnings			53,576	3,391	821	57,788
Total general revenues			396,537	86,046	821	483,404
CHANGE IN NET ASSETS			173,859	11,691	821	186,371
Net assets, beginning of year			(341,598)	96,859	20,351	(224,388)
Net assets, end of year			<u>\$ (167,739)</u>	<u>\$ 108,550</u>	<u>\$ 21,172</u>	<u>\$ (38,017)</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Mason is located in Ingham County, Michigan and has a population of approximately 8,000. The City of Mason operates with a City Administrator/Council form of government and provides services to its residents in many areas including general government, law enforcement, highways and streets, human services, and utilities services.

The City has seven (7) City Council members who are elected at large for overlapping two (2) or four (4) year terms. The Council elects two (2) of its members to serve as Mayor and Mayor Pro-Tem. The Council appoints the City Administrator/Clerk, Finance Director/Treasurer.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to city governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the City of Mason (primary government) and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City. All component units are included in the City's Financial Statements and are not audited separately.

2. Blended Component Unit

The City of Mason has one blended component unit, the Mason Building Authority, which was established for the purpose of acquiring, furnishing, equipping, owning, improving, enlarging, operating, and maintaining a building or buildings, and automobile parking lots or structures, recreations facilities and the necessary site or sites therefore, and the payment of the bond principal and interest for any related debt incurred. The Mason Building Authority is blended with the primary government in the Mason Building Authority Debt Service Fund, in conformity with GASB 14, as the component unit provides services entirely to the primary government.

3. Discretely Presented Component Units

These component units are reported in a separate column to emphasize that, while legally separate, the City remains financially accountable for these entities or the nature and significance of the relationship between the entities and the City is such that exclusion of the entities would render the financial statements misleading or incomplete. The financial statements contain the following discretely presented component units:

Downtown Development Authority - The Downtown Development Authority (DDA) was established in order to work in cooperation with the City Council in order to correct and prevent deterioration of the downtown district of the City, to promote economic growth and revitalization, to encourage historic preservation, to address problems of urban decline, and to strengthen existing areas and encourage new private development within the downtown district. The DDA's governing body, which consists of the City Mayor and eight (8) other individuals, is appointed by the City Council. Additionally, the DDA's budget is subject to approval by the City Council. The DDA may issue debt payable solely from tax increment revenues. The full faith and credit of the City may be given for the debt of the DDA.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Discretely Presented Component Units - continued

Local Development Finance Authority - The Local Finance and Development Authority (LDFA) was established by the City of Mason and the Township of Vevay as a condition of an agreement to transfer approximately 134 acres of land from the Township to the City. The purpose of the LDFA is to help stimulate economic growth, improve employment, stimulate new private investment in the City of Mason and Vevay Township, and to broaden the local tax base.

Economic Development Corporation - The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, and expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation's governing body, which consists of nine (9) individuals, is appointed by the City Administrator with the approval of the City Council.

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component unit as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component unit and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the City's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the City are:

- a. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Major Street Fund is used to account for financial resources that are used for repairs and maintenance of the City's streets.
- c. The Special Assessment Fund is used to account for the payment of interest and principal on long-term special assessment debt.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

- d. The Water and Sewer Fund is used to account for utility operations that are financed primarily by user charges.

Additionally, the City reports an internal service fund to account for the management of motor vehicles pool services provided to other departments on a cost reimbursement basis.

The City also reports agency funds to account for assets held by the City as the trustee or as the agent for others.

5. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for Agency Funds since assets equal liabilities.

6. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Basis of Accounting - continued

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

7. Budgets and Budgetary Accounting

The General and Special Revenue Fund budgets shown as required supplementary information were prepared on the same modified accrual basis used to reflect actual results. This basis is consistent with accounting principles generally accepted in the United States of America. The City employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. On the Council meeting date nearest to the third Monday in April, the City Administrator submits to City Council the proposed operating budgets for the fiscal year commencing the following July 1. The operating budgets include proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to the second regular Council meeting in May, the budget is legally enacted through passage of a resolution.
- d. The budget is legally adopted at the activity level for the General Fund and total expenditure level for the Special Revenue Funds; however, they are maintained at the account level for control purposes.
- e. The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at June 30 are not carried forward to the following fiscal year.
- f. Budgeted amounts are reported as originally adopted or amended by the City Council during the year. Individual amendments were appropriately approved by the City Council as required.

8. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of checking, savings, and certificates of deposit with a maturity from date of purchase of 90 days or less. The cash equivalents are recorded at cost, which approximates market value.

Investments consist of certificates of deposit with original maturities of greater than 90 days from the date of purchase. All certificates of deposit are stated at cost, which approximates market value.

9. Due from Other Governmental Units

Due from other governmental units consists of amounts due from the State of Michigan for various payments and grants and accounts receivable for charges for services provided to local governmental units.

10. Receivables

Receivables consist of amounts due related to charges for services, interest receivable, and other amounts owed to the City at year-end.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Property Tax

The City of Mason bills and collects its own property taxes and also taxes for other governmental units. The City's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph:

Property taxes are levied by the City of Mason on July 1 and December 1 and are payable without penalty through August 31 and February 14, respectively. The July 1 levy is composed of the City's millage, refuse, special assessments, Lansing Community College, Ingham I.S.D., Mason School operating, Ingham County operating and State Education Tax. The December 1 levy is composed of Ingham County nonoperating, County drains, Mason School debt, and Capital Area District Library. All real property taxes not paid to the City by March 1 are turned over to the Ingham County Treasurer for collection. The Ingham County Treasurer purchases the receivables of all taxing districts on any delinquent real property taxes. Delinquent personal property taxes receivable are retained by the City for subsequent collection. Collections and remittances of all taxes are accounted for in the Current Tax Collections Agency Fund. City property tax revenues are recognized as revenues in the fiscal year levied.

The City is permitted by charter to levy taxes up to 20 mills (\$20 per \$1,000 of taxable valuation) for general governmental services other than the payment of Debt Service Fund expenditures. For the year ended June 30, 2008, the City levied 13.2500 mills per \$1,000 of taxable valuation for general governmental services. The total taxable value for the 2007 levy for property within the City was \$217,823,745.

12. Inventory

The cost of inventory items in governmental funds is recorded as an expenditure at the time of purchase. Inventory in the Enterprise Funds consists of Water and Sewer System supplies which are stated at cost on a first-in/first-out basis.

13. Accrued Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. City employees are granted vacation amounts based on length of service. Sick pay is earned at the rate of eight hours per month. The City's policy provides for payment of unused vacation, but not sick pay, to terminated employees. Retiring employees are paid for unused vacation and a portion of sick pay. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured or come due for payment, generally when an individual's employment has terminated as of year end.

14. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

The Internal Service Fund (Motor Vehicle Pool) records charges for services provided to various City departments and funds as operating revenue. All City funds record these payments as operating expenditures/expenses.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**15. Capital Assets**

Capital assets include land, land improvements, buildings and improvements, equipment, vehicles, infrastructure, and utility systems, and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities and business-type activities columns. Capital assets are those with an initial individual cost of \$2,500 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Land improvements	10 - 40 years
Buildings and improvements	10 - 40 years
Equipment	5 - 20 years
Vehicles	3 - 10 years
Utility systems	20 - 67 years
Infrastructure	33 - 40 years

16. Deferred Revenue

Deferred revenue consists of amounts related to special assessments receivable in future periods. None of these amounts are deferred in the government-wide financial statements.

17. Long-term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

18. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the City is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers' acceptances of United States banks.
- f. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143 to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

As of June 30, 2008, the carrying amounts and bank balances for each type of bank account are as follows:

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking and savings	\$ 8,205,582	\$ 6,639,241
Certificates of deposit	<u>1,000,000</u>	<u>1,000,000</u>
Total Primary Government	9,205,582	7,639,241
FIDUCIARY FUNDS		
Checking and savings	29,570	34,281
COMPONENT UNITS		
Savings	<u>1,053,822</u>	<u>268,384</u>
TOTAL REPORTING ENTITY	<u>\$ 10,288,974</u>	<u>\$ 7,941,906</u>

Deposits of the City are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the City. As of June 30, 2008, the City accounts were insured by the FDIC for \$337,333 and the amount of \$7,604,573 was uninsured and uncollateralized.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUEDCredit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2008, the City did not have any investments that would be subject to rating.

Interest rate risk

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio.

Concentration of credit risk

The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The City will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Council and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business in accordance with Council approved policy.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2008:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 8,205,582	\$ 1,053,822	\$ 29,570	\$ 9,288,974
Investments	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>
	<u>\$ 9,205,582</u>	<u>\$ 1,053,822</u>	<u>\$ 29,570</u>	<u>\$10,288,974</u>

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2008, are as follows:

Due to Major Street Fund from:	
General Fund	\$ 21,534
Internal service fund	<u>113</u>
	<u>\$ 21,647</u>
Due to nonmajor governmental funds from:	
Major Street Fund	<u>\$ 21,355</u>

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE C: INTERFUND RECEIVABLES AND PAYABLES - CONTINUED

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE D: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds, business type funds, and the component unit have been eliminated.

Transfers to General Fund from:	
Special Assessment Fund	\$ 114,198
Nonmajor governmental funds	<u>17,434</u>
	<u>\$ 131,632</u>
Transfers to Major Street Fund from:	
General Fund	<u>\$ 349,716</u>
Transfer to nonmajor governmental funds from:	
General Fund	\$ 108,454
Major Street Fund	<u>103,855</u>
	<u>\$ 212,309</u>

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

Primary Government

	Balance <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2008</u>
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 1,426,251	\$ 20,603	\$ -	\$ 1,446,854
Construction in progress	<u>-</u>	<u>350,602</u>	<u>-</u>	<u>350,602</u>
Subtotal	1,426,251	371,205	-0-	1,797,456
Capital assets, being depreciated				
Land improvements	875,043	129,896	-	1,004,939
Buildings and improvements	1,535,960	-	-	1,535,960
Infrastructure	20,858,784	-	-	20,858,784
Vehicles and equipment	<u>2,445,188</u>	<u>185,022</u>	<u>(84,200)</u>	<u>2,546,010</u>
Subtotal	25,714,975	314,918	(84,200)	25,945,693

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE E: CAPITAL ASSETS - CONTINUED

Primary Government - continued

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Governmental activities - continued				
Less accumulated depreciation for:				
Land improvements	\$(444,609)	\$(34,191)	\$ -	\$(478,800)
Buildings and improvements	(647,808)	(33,298)	-	(681,106)
Infrastructure	(8,140,063)	(632,084)	-	(8,772,147)
Vehicles and equipment	(1,992,303)	(118,777)	84,200	(2,026,880)
Subtotal	(11,224,783)	(818,350)	84,200	(11,958,933)
Net capital assets being depreciated	14,490,192	(503,432)	-0-	13,986,760
Capital assets, net	\$ 15,916,443	\$(132,227)	\$ -0-	\$ 15,784,216

Depreciation expense was charged to the following governmental activities:

General government	\$ 17,569
Public safety	95,928
Public works	672,922
Recreation and cultural	31,931
Total depreciation expense	\$ 818,350

	Balance July 1, 2007	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2008
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 25,609	\$ -	\$ -	\$ 25,609
Construction in progress	713,363	5,991,996	236,347	6,469,012
Subtotal	738,972	5,991,996	236,347	6,494,621
Capital assets, being depreciated				
Buildings and improvements	455,637	-	-	455,637
Infrastructure	13,887,118	802,437	-	14,689,555
Subtotal	14,342,755	802,437	-0-	15,145,192
Less accumulated depreciation for				
Buildings and improvements	(233,641)	(21,750)	-	(255,391)
Infrastructure	(5,441,953)	(392,191)	-	(5,834,144)
Subtotal	(5,675,594)	(413,941)	-0-	(6,089,535)
Net capital assets, being depreciated	8,667,161	388,496	-0-	9,055,657
Capital assets, net	\$ 9,406,133	\$ 6,380,492	\$ 236,347	\$ 15,550,278

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE E: CAPITAL ASSETS - CONTINUED

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
Component Unit (LDFA)				
Capital assets, being depreciated				
Equipment	\$ 710,587	\$ -	\$ -	\$ 710,587
Less accumulated depreciation for				
Equipment	(497,412)	(71,059)	-	(568,471)
Capital assets, net	<u>\$ 213,175</u>	<u>\$(71,059)</u>	<u>\$ -0-</u>	<u>\$ 142,116</u>

NOTE F: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended June 30, 2008.

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>	<u>Amounts Due Within One Year</u>
PRIMARY GOVERNMENT					
Governmental activities					
1997 Building Authority Bond	\$ 335,000	\$ -	\$ 20,000	\$ 315,000	\$ 20,000
Special Assessment Bonds	982,000	-	81,000	901,000	91,000
Loans Payable	583,467	-	97,854	485,613	98,183
Compensated Absences	<u>353,278</u>	<u>202,136</u>	<u>171,527</u>	<u>383,887</u>	<u>115,166</u>
	2,253,745	202,136	370,381	2,085,500	324,349
Business-type activities					
Water and Sewer System					
2005 Revenue Bonds	58,313	-	13,624	44,689	14,242
Drinking Water Revolving					
Fund Loan	-	5,336,585	-	5,336,585	325,000
Compensated Absences	<u>58,001</u>	<u>38,503</u>	<u>25,966</u>	<u>70,538</u>	<u>14,108</u>
	<u>116,314</u>	<u>5,375,088</u>	<u>39,590</u>	<u>5,451,812</u>	<u>353,350</u>
TOTAL PRIMARY GOVERNMENT	2,370,059	5,577,224	409,971	7,537,312	677,699
COMPONENT UNIT FUND					
Local Development Finance Authority					
General Obligation Bonds	<u>1,469,412</u>	<u>-</u>	<u>334,448</u>	<u>1,134,964</u>	<u>334,449</u>
	<u>\$ 3,839,471</u>	<u>\$ 5,577,224</u>	<u>\$ 744,419</u>	<u>\$ 8,672,276</u>	<u>\$ 1,012,148</u>

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE F: LONG-TERM DEBT - CONTINUED

Significant details regarding outstanding long-term debt (including current portion) are presented below:

PRIMARY GOVERNMENT

1997 Building Authority Bond

\$450,000 General Obligation Bonds dated November 1, 1997, due in annual installments ranging from \$20,000 to \$40,000 through October 1, 2018, with interest ranging from 3.85 to 5.15 percent, payable semi-annually. \$ 315,000

Special Assessment Bonds

The City issued Special Assessment Bonds for the purpose of capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties that benefited from the construction. In the event a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City must provide resources to cover the deficiency until other resources are received.

The following summarizes the significant details regarding these bond issues:

\$205,000 1996 Special Assessment dated October 1, 1996, due in annual installments of \$15,000 through October 1, 2010, with interest ranging from 4.45 to 5.50 percent, payable semi-annually.	\$ 45,000
\$90,000 1998 Special Assessment dated September 4, 1998, due in annual installments of \$7,000 through September 1, 2012, with interest of 4.90 percent, payable semi-annually.	35,000
\$52,000 1999 Special Assessment dated October 22, 1998, due in annual installments ranging from \$4,000 to \$5,000 through October 1, 2013, with interest of 4.90 percent, payable semi-annually.	26,000
\$205,000 2001 Special Assessment dated June 1, 2001, due in annual installments ranging from \$10,000 to \$20,000 through October 1, 2013, with interest ranging from 4.20 to 7.00 percent, payable semi-annually.	105,000
\$750,000 2006 Special Assessment dated November 18, 2005, due in annual installments ranging from \$50,000 to \$55,000 through November 1, 2020, with interest ranging from 3.88 to 4.55 percent, payable semi-annually.	<u>690,000</u>
	<u>\$ 901,000</u>

Loans Payable

Dart National Bank Loan due in annual installments of \$21,000 to \$23,000 through April 1, 2009, with interest of 4.90 percent, for the City's computer system costing \$247,000.	\$ 23,000
Dart National Bank Loan due in annual installments of \$35,249 to \$51,062 through December 20, 2011, with interest of 4.50 percent, for a fire truck costing \$231,530.	181,826
Dart National Bank Loan due in annual installments of \$21,277 to \$29,668 through June 28, 2016, with interest of 4.80 percent, for land costing \$325,877.	202,332

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE F: LONG-TERM DEBT - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

Loans Payable - continued

Mason State Bank Loan due in annual installments of \$7,225 to \$10,384 through April 16, 2017, with interest of 4.65 percent, for land costing \$115,500. \$ 78,455

\$ 485,613

Water Supply and Sewage Disposal System 2005 Revenue Refunding Bonds

\$100,000 Water and Sewer Revenue Refunding Bonds Series 2005 dated May 6, 2005, due in annual installments ranging from \$14,242 to \$15,572 through May 13, 2011, with interest of 4.50 percent, payable annually. \$ 44,689

Drinking Water Revolving Fund Loan

\$8,000,000 Water Supply System Bonds dated September 27, 2007, maturity of which is not yet known. The City draws on the bonds as project expenditures are submitted. At project completion a maturity schedule will be set. Interest on the outstanding balance of 2.125 percent is payable semi-annually. Due to the unknown maturity schedule, it is not possible to anticipate the amount of principal and interest that will be due each year. \$ 5,336,585

COMPONENT UNIT - DISCRETELY PRESENTED

General Obligation Bonds

\$425,000 General Obligation Local Development Finance Authority Bond dated April 1, 1993, due in annual installments of \$25,000 to \$35,000 through October 1, 2013, with interest ranging from 5.75 to 8.00 percent, payable semi-annually. \$ 185,000

\$1,125,000 General Obligation Local Development Finance Authority Bond dated November 1, 1994, due in annual installments of \$85,000 through April 1, 2010, with interest ranging from 6.10 to 7.65 percent, payable semi-annually. 170,000

\$1,386,000 SSAB Local Development Finance Authority Bonds Series A dated August 1, 1999, due in annual installments of \$106,615 through August 1, 2011. 426,463

\$1,414,000 SSAB Local Development Finance Authority Bonds Series B dated March 1, 2000, due in annual installments of \$117,833 through March 1, 2011. 353,501

\$ 1,134,964

Accrued Compensated Absences

Individual employees have vested rights upon termination of employment to receive payments for unused vacation. Retiring employees are paid for unused vacation and a portion of sick pay. The dollar amounts of these vested rights including related payroll taxes, which have been accrued on the government-wide financial statements. The total liability amounted to approximately \$454,425 at June 30, 2008. Of this amount, \$383,887 and \$70,538 are shown as accrued liabilities within the government-wide financial statements' governmental and business-type activities, respectively, in accordance with criteria disclosed in Note A.

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE F: LONG-TERM DEBT - CONTINUED

The annual requirements to pay the debt principal and interest outstanding for the Bonds and Notes are as follows:

Primary Government

Year Ending June 30,	<u>General Obligation Bonds</u>		<u>Special Assessment Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 20,000	\$ 15,028	\$ 91,000	\$ 37,292
2010	20,000	14,108	101,000	33,969
2011	25,000	13,055	96,000	29,729
2012	25,000	11,874	81,000	25,828
2013	25,000	10,674	77,000	22,453
2014-2018	160,000	31,231	300,000	68,100
2019-2023	<u>40,000</u>	<u>1,030</u>	<u>155,000</u>	<u>10,513</u>
	<u>\$ 315,000</u>	<u>\$ 97,000</u>	<u>\$ 901,000</u>	<u>\$ 227,884</u>

Year Ending June 30,	<u>Revenue Bonds</u>		<u>Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 14,242	\$ 2,040	\$ 98,183	\$ 22,926
2010	14,892	1,390	78,700	18,282
2011	15,555	710	82,365	14,617
2012	-	-	68,035	10,304
2013	-	-	34,391	7,591
2014-2018	<u>-</u>	<u>-</u>	<u>123,939</u>	<u>13,022</u>
	<u>\$ 44,689</u>	<u>\$ 4,140</u>	<u>\$ 485,613</u>	<u>\$ 86,740</u>

Component Unit

Year Ending June 30,	General Obligation Local Development Finance Authority Bonds	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 334,449	\$ 23,221
2010	339,449	15,490
2011	254,450	7,583
2012	136,616	5,610
2013	35,000	3,465
2014-2018	<u>35,000</u>	<u>1,155</u>
	<u>\$ 1,134,964</u>	<u>\$ 56,524</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE G: RETIREMENT PLANPlan Description

The City participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the City Council and by negotiation with the City's collective bargaining units. The plan requires employee contributions ranging from 9.42% to 13.57%, depending on the employee division.

Annual Pension Cost

For year ended June 30, 2008, the City's annual pension cost of \$174,953 for the plan was equal to the City's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age normal cost method. Actual contributions to the retirement system are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit, and (d) postretirement benefit increases of 2.5% annually.

The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a ten (10) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of twenty-eight (28) years.

Three (3) year trend information

	Year Ended December 31,		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Actuarial value of assets	\$ 9,198,600	\$ 9,789,872	\$10,328,949
Actuarial accrued liability (AAL) (entry age)	10,865,189	11,418,642	12,058,350
Unfunded AAL	1,666,589	1,628,770	1,729,401
Funded ratio	85 %	86 %	86 %
Covered payroll	1,987,320	2,037,410	2,108,488
UAAL as a percentage of covered payroll	84 %	80 %	82 %
	Year Ended June 30,		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Annual pension cost	\$ 137,330	\$ 159,731	\$ 174,953
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE H: OTHER POSTEMPLOYMENT BENEFITS

The City has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The City pays the full cost of coverage for these benefits. Also, retirees can purchase coverage for their dependents at the City's group rates. Currently, 19 retirees are eligible for postemployment health benefits. For the fiscal year ended June 30, 2008, the City made payments for postemployment health benefit premiums of \$58,556. The City obtains healthcare coverage through private insurers.

UPCOMING REPORTING CHANGE

The Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement provides guidance for local units of government in recognizing the cost of retiree healthcare, as well as any "other" postemployment benefits (other than pensions).

The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

NOTE I: CODE ENFORCEMENT FINANCIAL INFORMATION

The City has elected to report the financial activities of the code enforcement department in the General Fund. The following is the required information as it relates to this department for the year ended June 30, 2008:

Surplus at July 1, 2007	\$ 309,212
REVENUES	
Licenses and permits	
Permits	45,716
EXPENDITURES	
Building Department	(111,008)
Cumulative surplus at June 30, 2008	<u>\$ 243,920</u>

NOTE J: RISK MANAGEMENT

The City participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

The City also participates in a State pool, the Michigan Municipal Risk Management Authority, with other municipalities for property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The City has individual self-insured retention amounts of \$75,000 for Sewage System Overflows (per occurrence) and a \$250 deductible per occurrence of property and crime coverage. State pool members' limits of coverage (per occurrence) are \$5,000,000 for liability and about \$5,000,000 for property. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE K: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance which the City has set aside for specific purposes.

The following are the various fund balance reserves as of June 30, 2008:

Primary Government	
General Fund	
Reserved for prepaids	\$ 11,876
Reserved for construction code activities	<u>243,920</u>
Total General Fund	255,796
Nonmajor governmental funds	
Reserved for perpetual care	<u>321,917</u>
Total primary government	<u>\$ 577,713</u>

The following is a fund balance designation as of June 30, 2008:

General Fund	
Designated for City Hall project	<u>\$ 1,000,000</u>

NOTE L: RESTRICTED NET ASSETS

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of June 30, 2008:

PRIMARY GOVERNMENT	
Capital improvement	\$ 105,889
Debt service	288,147
Other purposes	
Construction code activity	243,920
Streets and highways	586,374
Cemetery perpetual care	321,917
Rayner Bond	<u>573,101</u>
	<u>\$ 2,119,348</u>

NOTE M: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the budgetary comparison schedules, the City's budgeted expenditures in the General and major Special Revenue Funds have been shown at the functional classification level. The approved budgets of the City have been adopted at the activity level for the General Fund and the total expenditure level for the Special Revenue Funds.

City of Mason

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE M: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONTINUED

During the year ended June 30, 2008, the City incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General Government			
Workers Compensation	\$ 37,240	\$ 37,586	\$ 216
Community and economic development			
Cable Commission	3,170	3,231	61

NOTE N: CONTRACTUAL COMMITMENTS

The City has entered into various contracts relating to water plant improvements that were not completed at June 30, 2008. The contractual commitments outstanding at June 30, 2008 total \$2,659,054. The City plans to cover these commitments with proceeds from the Water Supply System Bonds.

NOTE O: LINE OF CREDIT

The City has a line of credit agreement with Dart National Bank. The line of credit was granted as financial assurance to the Michigan Department of Environmental Quality for the conditions specified in a wetland mitigation permit. The line of credit limit is for \$47,000 in the event that the City fails to comply with the requirements of the permit. The City was not required to draw on this line of credit during the year. As of June 30, 2008 there was no outstanding balance.

NOTE P: SUBSEQUENT EVENT

The City Council approved the purchase of 24 self contained breathing apparatus (SCBA) ensembles on July 7, 2008 for \$116,416. The purchase is to be financed with a FEMA Assistance to Firefighters grant and the City's matching funds.

REQUIRED SUPPLEMENTARY INFORMATION

City of Mason

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property taxes	\$ 2,894,155	\$ 2,900,015	\$ 2,899,091	\$ (924)
Penalties and interest	11,500	24,130	29,661	5,531
Administration fees	86,760	92,190	92,472	282
Total taxes	2,992,415	3,016,335	3,021,224	4,889
Licenses and permits	36,725	53,390	56,726	3,336
Intergovernmental				
Federal/State	652,350	645,030	641,658	(3,372)
Local	974,870	435,220	435,220	-0-
Total intergovernmental	1,627,220	1,080,250	1,076,878	(3,372)
Charges for services				
Refuse collection	294,815	296,065	296,066	1
Cable franchise fee	30,000	32,445	32,449	4
Other	258,355	252,730	263,706	10,976
Total charges for services	583,170	581,240	592,221	10,981
Fines and forfeits	19,650	14,950	7,500	(7,450)
Interest and rents	62,700	105,500	112,276	6,776
Other	56,740	51,465	50,444	(1,021)
TOTAL REVENUES	5,378,620	4,903,130	4,917,269	14,139

City of Mason

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
EXPENDITURES				
General government				
City Council	\$ 45,395	\$ 42,715	\$ 39,338	\$ 3,377
Administrator	394,730	387,555	384,673	2,882
Assessor	47,060	48,555	48,538	17
Board of Review	700	690	690	-0-
Treasurer	508,945	393,835	391,927	1,908
Technology	49,200	42,365	38,518	3,847
Election	85,615	23,650	22,685	965
Building office and City Hall	132,345	139,130	136,155	2,975
Attorney	56,375	82,000	79,457	2,543
Property	78,220	100,510	100,499	11
Cemetery	232,285	196,270	194,371	1,899
Planning and zoning	99,835	96,250	95,032	1,218
Civil defense	500	540	338	202
Engineering	255	-	-	-0-
Planning commission	1,540	5	3	2
Workers compensation	38,635	37,370	37,586	(216)
Retiree benefits	51,150	58,560	58,556	4
Contingencies	445	-	-	-0-
Total general government	1,823,230	1,650,000	1,628,366	21,634
Public safety				
Police administration	349,490	309,945	303,840	6,105
Crossing guards	43,050	37,240	37,230	10
Police patrolling	1,010,515	852,855	849,190	3,665
Fire department	340,625	272,365	271,508	857
Total public safety	1,743,680	1,472,405	1,461,768	10,637
Public works				
Public services	6,765	5,110	5,071	39
Sidewalks	1,775	5,545	5,543	2
Street lighting	100,560	88,655	88,653	2
Refuse collection	300,275	288,020	288,017	3
Total public works	409,375	387,330	387,284	46
Community and economic development				
Cable commission	5,070	3,170	3,231	(61)
Christmas decorations	4,210	2,745	2,728	17
Total community and economic development	9,280	5,915	5,959	(44)

City of Mason

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Recreation and cultural				
Parks	\$ 360,920	\$ 293,310	\$ 291,855	\$ 1,455
Library	14,790	10,930	10,476	454
Forestry	69,050	57,060	54,241	2,819
Senior citizens	7,670	6,495	6,495	-0-
Total recreation and cultural	452,430	367,795	363,067	4,728
Debt service				
Principal	-	49,705	49,704	1
Interest and fiscal fees	-	5,300	5,296	4
Total debt service	-0-	55,005	55,000	5
TOTAL EXPENDITURES	4,437,995	3,938,450	3,901,444	37,006
EXCESS OF REVENUES OVER EXPENDITURES	940,625	964,680	1,015,825	51,145
OTHER FINANCING SOURCES (USES)				
Transfers in	121,410	131,630	131,632	2
Transfers out	(519,520)	(500,785)	(458,170)	42,615
TOTAL OTHER FINANCING SOURCES (USES)	(398,110)	(369,155)	(326,538)	42,617
NET CHANGE IN FUND BALANCE	542,515	595,525	689,287	93,762
Fund balance, beginning of year	1,662,104	1,662,104	1,662,104	-0-
Fund balance, end of year	\$ 2,204,619	\$ 2,257,629	\$ 2,351,391	\$ 93,762

City of Mason

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental	\$ 830,705	\$ 326,765	\$ 325,638	\$ (1,127)
Charges for services	-	4,400	4,401	1
Interest	19,150	14,565	14,696	131
TOTAL REVENUES	849,855	345,730	344,735	(995)
EXPENDITURES				
Current				
Public works				
Street and road construction	1,272,000	350,000	350,288	(288)
Street maintenance	192,745	187,035	186,239	796
Traffic services	15,475	11,125	9,095	2,030
Winter maintenance	31,030	44,995	45,137	(142)
Street administration	57,075	57,075	57,076	(1)
TOTAL EXPENDITURES	1,568,325	650,230	647,835	2,395
EXCESS OF REVENUES (UNDER) EXPENDITURES	(718,470)	(304,500)	(303,100)	1,400
OTHER FINANCING SOURCES (USES)				
Transfers in	763,000	350,000	349,716	(284)
Transfers out	(80,425)	(105,685)	(103,855)	1,830
TOTAL OTHER FINANCING SOURCES (USES)	682,575	244,315	245,861	1,546
NET CHANGE IN FUND BALANCE	(35,895)	(60,185)	(57,239)	2,946
Fund balance, beginning of year	487,573	487,573	487,573	-0-
Fund balance, end of year	\$ 451,678	\$ 427,388	\$ 430,334	\$ 2,946

City of Mason
Special Assessment Fund
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Interest	\$ 111,165	\$ 111,300	\$ 113,433	\$ 2,133
Other				
Special assessments	<u>145,670</u>	<u>154,735</u>	<u>154,701</u>	<u>(34)</u>
TOTAL REVENUES	256,835	266,035	268,134	2,099
EXPENDITURES				
Debt service	<u>151,910</u>	<u>151,840</u>	<u>122,201</u>	<u>29,639</u>
EXCESS OF REVENUES OVER EXPENDITURES	104,925	114,195	145,933	31,738
OTHER FINANCING USES				
Transfers out	<u>(104,925)</u>	<u>(114,195)</u>	<u>(114,198)</u>	<u>(3)</u>
NET CHANGE IN FUND BALANCE	-0-	-0-	31,735	31,735
Fund balance, beginning of year	<u>272,707</u>	<u>272,707</u>	<u>272,707</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 272,707</u>	<u>\$ 272,707</u>	<u>\$ 304,442</u>	<u>\$ 31,735</u>

OTHER SUPPLEMENTARY INFORMATION

City of Mason
Nonmajor Governmental Funds
COMBINING BALANCE SHEET
June 30, 2008

	Special Revenue		Debt Service	
	Local Street	Rayner Bond	Park Street Property	Mason Building Authority
ASSETS				
Cash and cash equivalents	\$ 118,539	\$ 573,101	\$ -	\$ 309
Accounts receivable	1,032	-	-	-
Due from other funds	21,355	-	-	-
Due from other governmental units	18,525	-	-	-
TOTAL ASSETS	<u>\$ 159,451</u>	<u>\$ 573,101</u>	<u>\$ -0-</u>	<u>\$ 309</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 1,845	\$ -	\$ -	\$ -
Accrued wages	1,566	-	-	-
TOTAL LIABILITIES	3,411	-0-	-0-	-0-
FUND BALANCES				
Reserved for:				
Perpetual care	-	-	-	-
Unreserved				
Undesignated, reported in:				
Special Revenue Funds	156,040	573,101	-	-
Debt Service Funds	-	-	-	309
Capital Projects Funds	-	-	-	-
TOTAL FUND BALANCES	<u>156,040</u>	<u>573,101</u>	<u>-0-</u>	<u>309</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 159,451</u>	<u>\$ 573,101</u>	<u>\$ -0-</u>	<u>\$ 309</u>

<u>Capital Projects</u>	<u>Permanent</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Capital Improvement</u>	<u>Cemetery Trust</u>	
\$ 106,291	\$ 321,917	\$ 1,120,157
-	-	1,032
-	-	21,355
-	-	18,525
<u>\$ 106,291</u>	<u>\$ 321,917</u>	<u>\$ 1,161,069</u>

\$ 402	\$ -	\$ 2,247
-	-	1,566

402	-0-	3,813
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-	321,917	321,917
---	---------	---------

-	-	729,141
-	-	309
105,889	-	105,889

<u>105,889</u>	<u>321,917</u>	<u>1,157,256</u>
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<u>\$ 106,291</u>	<u>\$ 321,917</u>	<u>\$ 1,161,069</u>
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City of Mason

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2008

	Special Revenue		Debt Service	
	Local Street	Rayner Bond	Park Street Property	Mason Building Authority
REVENUES				
Intergovernmental	\$ 133,784	\$ -	\$ -	\$ -
Charges for services	2,802	-	-	-
Interest, rents, and royalties	1,253	74,334	-	13
Other	-	-	-	-
TOTAL REVENUES	137,839	74,334	-0-	13
EXPENDITURES				
Current				
Public works	249,369	-	-	-
Debt service	-	-	41,982	35,933
Capital outlay	-	-	-	-
TOTAL EXPENDITURES	249,369	-0-	41,982	35,933
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(111,530)	74,334	(41,982)	(35,920)
OTHER FINANCING SOURCES (USES)				
Transfers in	111,529	-	41,982	35,933
Transfers out	-	(7,174)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	111,529	(7,174)	41,982	35,933
NET CHANGE IN FUND BALANCES	(1)	67,160	-0-	13
Fund balances, beginning of year	156,041	505,941	-	296
Fund balances, end of year	\$ 156,040	\$ 573,101	\$ -0-	\$ 309

Capital Projects	Permanent	Total Nonmajor Governmental Funds
Capital Improvement	Cemetery Trust	
\$ -	\$ -	\$ 133,784
-	-	2,802
2,526	12,700	90,826
100,295	2,775	103,070
102,821	15,475	330,482
-	-	249,369
23,152	-	101,067
38,684	-	38,684
61,836	-0-	389,120
40,985	15,475	(58,638)
22,865	-	212,309
-	(10,260)	(17,434)
22,865	(10,260)	194,875
63,850	5,215	136,237
42,039	316,702	1,021,019
<u>\$ 105,889</u>	<u>\$ 321,917</u>	<u>\$ 1,157,256</u>

City of Mason

Agency Funds

COMBINING STATEMENT OF ASSETS AND LIABILITIES

June 30, 2008

	<u>Common Cash</u>	<u>Delinquent Tax</u>	<u>Payroll</u>	<u>Total Agency Funds</u>
ASSETS				
Cash and cash equivalents	<u>\$ 42</u>	<u>\$ 40</u>	<u>\$ 29,488</u>	<u>\$ 29,570</u>
LIABILITIES				
Accrued and other liabilities	\$ -	\$ -	\$ 29,488	\$ 29,488
Due to other governmental units	42	19	-	61
Due to individuals and agencies	<u>-</u>	<u>21</u>	<u>-</u>	<u>21</u>
TOTAL LIABILITIES	<u>\$ 42</u>	<u>\$ 40</u>	<u>\$ 29,488</u>	<u>\$ 29,570</u>

City of Mason

Component Unit Funds

COMBINING BALANCE SHEET - LOCAL DEVELOPMENT FINANCE AUTHORITY

June 30, 2008

	Special Revenue	Debt	
	LDFA	1992 Bond	1994 Bond
ASSETS			
Cash and cash equivalents	\$ 931,910	\$ -0-	\$ -0-
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Due to other governmental units	\$ 100,000	\$ -	\$ -
FUND BALANCES			
Unreserved - undesignated	831,910	-	-
TOTAL LIABILITIES AND FUND BALANCES	\$ 931,910	\$ -0-	\$ -0-

Service		
1998 SSAB Bond - Michigan Jobs	1998 SSAB Bond	Total
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 931,910</u>
 \$ -	 \$ -	 \$ 100,000
 -	 -	 831,910
<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 931,910</u>

City of Mason

Component Unit Fund

RECONCILIATION OF THE COMBINING BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - LOCAL DEVELOPMENT FINANCE AUTHORITY

June 30, 2008

Total fund balances - governmental funds **\$ 831,910**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 710,587	
Accumulated depreciation is	<u>(568,471)</u>	
		142,116

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.
Long-term liabilities at year-end consist of:

Bonds payable	1,134,964	
Accrued interest payable	<u>6,801</u>	
		<u>(1,141,765)</u>

Net assets of governmental activities **\$ (167,739)**

City of Mason

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - LOCAL DEVELOPMENT FINANCE AUTHORITY

Year Ended June 30, 2008

	Special Revenue	Debt	
	L DFA	1992 Bond	1994 Bond
REVENUES			
Taxes	\$ 342,961	\$ -	\$ -
Interest	53,576	-	-
TOTAL REVENUES	396,537	-0-	-0-
EXPENDITURES			
Current			
Community and economic development	121,579	-	-
Debt service	-	38,278	103,250
TOTAL EXPENDITURES	121,579	38,278	103,250
EXCESS OF REVENUES (UNDER) EXPENDITURES	274,958	(38,278)	(103,250)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	38,278	103,250
Transfers out	(365,976)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(365,976)	38,278	103,250
NET CHANGE IN FUND BALANCES	(91,018)	-0-	-0-
Fund balances, beginning of year	922,928	-	-
Fund balances, end of year	\$ 831,910	\$ -0-	\$ -0-

Service		
1998 SSAB Bond - Michigan Jobs	1998 SSAB Bond	Total
\$ -	\$ -	\$ 342,961
-	-	53,576
-0-	-0-	396,537
-	-	121,579
106,615	117,833	365,976
106,615	117,833	487,555
(106,615)	(117,833)	(91,018)
106,615	117,833	365,976
-	-	(365,976)
106,615	117,833	-0-
-0-	-0-	(91,018)
-	-	922,928
\$ -0-	\$ -0-	\$ 831,910

City of Mason

Component Unit Fund

RECONCILIATION OF THE COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES - LOCAL DEVELOPMENT FINANCE AUTHORITY

Year Ended June 30, 2008

Net change in fund balances - governmental funds **\$ (91,018)**

Amounts reported for governmental activities in the statement of activities are different because:

The cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, this amount is:

Depreciation expense (71,059)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Long-term debt principal retirements 334,448

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable 1,488

Change in net assets of governmental activities **\$ 173,859**

City of Mason

Component Unit Funds

BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2008

	<u>Special Revenue</u>
ASSETS	
Cash	\$ 100,740
Taxes receivable	11,746
Accounts receivable	<u>1,554</u>
TOTAL ASSETS	<u>\$ 114,040</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 5,069
Accrued wages	379
Due to other governmental units	<u>42</u>
TOTAL LIABILITIES	5,490
FUND BALANCE	
Unreserved - undesignated	<u>108,550</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 114,040</u>

Note: Reconciliation of the balance sheet of this component unit's governmental fund to the statement of net assets for the component unit is not required as the fund balance of the component unit governmental fund was equal to the net assets of the component unit for the year ended June 30, 2008.

City of Mason

Component Unit Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2008

	<u>Special Revenue</u>
REVENUES	
Taxes	\$ 82,655
Interest	3,391
Other	<u>2,100</u>
TOTAL REVENUES	88,146
EXPENDITURES	
Current	
Community and economic development	<u>76,455</u>
NET CHANGE IN FUND BALANCE	11,691
Fund balance, beginning of year	<u>96,859</u>
Fund balance, end of year	<u><u>\$ 108,550</u></u>

Note: Reconciliation of the statement of revenues, expenditures, and changes in fund balance of this component unit's governmental fund to the statement of activities for the component unit is not required as the net change in fund balance of the component unit governmental fund was equal to the change in net assets of the component unit for the year ended June 30, 2008.

City of Mason

Component Unit Funds

BALANCE SHEET - ECONOMIC DEVELOPMENT CORPORATION

June 30, 2008

	<u>Special Revenue</u>
ASSETS	
Cash and cash equivalents	<u>\$ 21,172</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	\$ -
FUND BALANCE	
Unreserved - undesignated	<u>21,172</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 21,172</u>

Note: Reconciliation of the balance sheet of this component unit's governmental fund to the statement of net assets for the component unit is not required as the fund balance of the component unit governmental fund was equal to the net assets of the component unit for the year ended June 30, 2008.

City of Mason

Component Unit Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ECONOMIC DEVELOPMENT CORPORATION

Year Ended June 30, 2008

	<u>Special Revenue</u>
REVENUES	
Interest	\$ 821
EXPENDITURES	<u>-</u>
NET CHANGE IN FUND BALANCE	821
Fund balance, beginning of year	<u>20,351</u>
Fund balance, end of year	<u>\$ 21,172</u>

Note: Reconciliation of the statement of revenues, expenditures, and changes in fund balance of this component unit's governmental fund to the statement of activities for the component unit is not required as the net change in fund balance of the component unit governmental fund was equal to the change in net assets of the component unit for the year ended June 30, 2008.

Principals

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Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council
City of Mason
Mason, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the City of Mason, Michigan as of and for the year ended June 30, 2008, and have issued our report thereon dated October 23, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Mason's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

2008-1 FRAUD RISK MANAGEMENT PROGRAM

Condition: During the course of our audit, we noted that the City has not developed or implemented a fraud risk management program.

Criteria: Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

2008-1 FRAUD RISK MANAGEMENT PROGRAM - CONTINUED

Effect: Due to the City not developing a fraud risk assessment and monitoring program it is unable to assess the City's vulnerabilities to fraudulent activity and whether any of those exposures could result in material misstatement of the financial statements.

Recommendation: We recommend that the City develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also include informing management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

Corrective Action Response: It is the intent of the City of Mason to adopt a fraud policy within the 2008/2009 fiscal year.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted a certain matter that we reported to management of the City of Mason in a separate letter dated October 23, 2008.

This report is intended solely for the information and use of management and the City Council of the City of Mason, others within the City, the federal awarding agencies and pass-through grantors and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 23, 2008

City of Mason

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

June 30, 2008

City of Mason

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Honorable Mayor and
Members of the City Council
City of Mason
Mason, Michigan

Compliance

We have audited the compliance of the City of Mason, Michigan with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to the major Federal program for the year ended June 30, 2008. The City of Mason's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major Federal program is the responsibility of the City of Mason's management. Our responsibility is to express an opinion on the City of Mason's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the City of Mason's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Mason's compliance with those requirements.

In our opinion, the City of Mason complied, in all material respects, with the requirements referred to above that are applicable to the major Federal program for the year ending June 30, 2008.

Internal Control Over Compliance

The management of the City of Mason is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the City of Mason's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the City of Mason's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Mason's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the City of Mason as of and for the year ended June 30, 2008, and have issued our report thereon dated October 23, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Mason's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management and City Council of the City of Mason, the pass-through grantors, and the federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 23, 2008

City of Mason

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2008

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor Number</u>	<u>Expenditures</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY Passed through Michigan Department of Environmental Quality Capitalization Grants for Drinking Water State Revolving Funds	66.468	N/A	<u>\$ 4,305,383</u>

City of Mason

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2008

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of The City of Mason and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council
City of Mason
Mason, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the City of Mason, Michigan as of and for the year ended June 30, 2008, and have issued our report thereon dated October 23, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Mason's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Mason's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Mason's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described as 2008-1 in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Mason's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

We noted a certain matter that we reported to management of the City of Mason in a separate letter dated October 23, 2008.

This report is intended solely for the information and use of management and City Council of the City of Mason, the pass-through grantors, and the federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 23, 2008

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2008

Section I - Summary of Auditor's Results**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X NoSignificant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reportedNoncompliance material to financial statements noted? _____ Yes X No**Federal Awards**

Internal control over major programs:

Material weakness(es) identified? _____ Yes X NoSignificant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

66.468

Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

_____ Yes X No**Section II - Financial Statement Findings****2008-1 FRAUD RISK MANAGEMENT PROGRAM**

Condition: During the course of our audit, we noted that the City has not developed or implemented a fraud risk management program.

Criteria: Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended June 30, 2008

Section II - Financial Statement Findings - Continued

2008-1 FRAUD RISK MANAGEMENT PROGRAM - CONTINUED

Effect: Due to the City not developing a fraud risk assessment and monitoring program it is unable to assess the City's vulnerabilities to fraudulent activity and whether any of those exposures could result in material misstatement of the financial statements.

Recommendation: We recommend that the City develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also include informing management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

Corrective Action Response: It is the intent of the City of Mason to adopt a fraud policy within the 2008/2009 fiscal year.

Section III - Federal Award Findings and Questioned Costs

None

City of Mason

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2008

FINDINGS/NONCOMPLIANCE

Findings Related to Internal Controls Over the Financial Statements.

Accrual of Salary and Wage Expenditures

Condition: The City does not record an accrued salary and wage expenditures in its general ledger, in accordance with generally accepted accounting principles. Additionally, the City does not review the potential amount of the accrual at year end.

Resolution: The City has recorded its accrual for salary and wage expenditures in accordance with generally accepted accounting principles, this matter is considered resolved.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings.

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MANAGEMENT LETTER

To the Honorable Mayor and
Members of the City Council
City of Mason
Mason, Michigan

As you know, we have recently completed our audit of the City of Mason, Michigan for the year ended June 30, 2008. In connection with the audit, we offer the following comments for your consideration.

Transfers between Major and Local Street Funds

Public Act 9 of 2004 allows an entity to transfer surplus Major Street system funds for the preservation of the Local Street system. This authorization will end December 31, 2008. Effective January 1, 2009, Major Street funds may not be transferred to Local Streets except to the extent matched by local revenues expended on the Major Street system of State Trunkline highways.

We suggest the City consider this when they plan for the budgeting process for 2009.

Threshold for Council approval of expenditures

During the course of the audit, it was noted that the current dollar threshold for expenditures that require approval by the City Council is \$500. While this level of review allows for the Council to be very much involved in the daily operations of the City, this threshold may be low compared to similarly sized governments. In our experience, thresholds for expenditures requiring Council approval for cities with similar revenue and expenditures range from \$1,000 to 10,000.

We suggest the City consider increasing its threshold to reflect the increase in modern prices of supplies and services necessary for day-to-day operations. This will relieve the Council, the City Administrator, and several employees from preparing reports detailing these expenditures for review and presentation, which have already been reviewed at a department head level. This will save time and create more efficiency within the City.

This report is intended solely for the information and use of management, City Council of the City of Mason and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 23, 2008